



# Fairfax County Internal Audit Office

**Police Department  
Funds for Undercover Operations Audit  
Final Report**

**March 2017**

***"promoting efficient & effective local government"***

# Introduction

We performed an audit of the Fairfax County Police Department's (FCPD) funds used in undercover funds operations. The fund programs were managed by FCPD under the Criminal Investigation Bureau (CIB) which is comprised of two divisions for operations: Organized Crime and Narcotics Division (OCN) and Criminal Intelligence Unit (CIU). These operations were supported by state and federal law enforcement units. Cash, vehicles, and other noncash assets seized during arrest of individuals for crimes are forfeited through the Commonwealth of Virginia or federal courts as civil cases, after the criminal cases are completed. The proceeds from forfeited seized assets are shared with the state and federal governments after a court decision has been made on the process. CIB operates the confidential funds program from funds received through court ordered restitution assets, churning funds, seized assets and funds provided by the County. For the safety of the undercover officers, transactions for some of these funds are accounted for outside of the County's financial system through separate bank accounts, cash and credit cards.

## Executive Summary

Our audit was performed to determine the adequacy of controls over these funds for undercover operations. We found that physical money counts to verify the funds balance were performed timely and in accordance with the established internal procedures, and a proper segregation of duties was in place. We noted the following areas where controls needed to be strengthened:

- The Police Department's policies and procedures were lacking specific requirements for the vault, such as logs with a date and signature.
- There were control weaknesses in monitoring bank accounts. For example, some checks issued for undercover fund operations did not have written authorizations and contained insufficient supporting documentation.
- Several procurement card transactions sampled did not have appropriate supporting documentation or list the purpose for the purchase.
- Staff processing and reviewing financial transactions were not properly trained in accounting and finance procedures.

## Scope and Objectives

This audit was performed as part of our fiscal year 2015 Annual Audit Plan and was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit covered the period July 1, 2013 through November 30, 2015. The objectives of the audit were to determine that:

- Cash accountability was adequate.
- Cash was adequately safeguarded.
- Adequate separation of duties existed within cash collection, disbursement, accounting and reconciliation processes.
- Cash receipts and deposits were posted and reconciled in a timely manner.
- FCPD developed and was in compliance with proper written policies and procedures.

## Methodology

Our audit approach included a review of policies and procedures pertaining to the funds for the undercover operations. We performed an analysis of the processes for using and safe guarding the money in these operations. Through walkthrough procedures we verified compliance with policies and procedures. We also reviewed processes by visiting the undercover operations site to verify the security of work areas where the vaults were located. In addition, we obtained supporting documentation of vault financial transactions. We compared bank statements and credit card statements against transactions posted to their general ledger. The supporting documentation for a sample of 24 transactions was verified for proper approval authorizations. We interviewed key personnel involved in the operations to obtain an understanding of controls in place. Finally, we tallied the available cash in two vaults located at the Undercover Operations Division to ensure the accuracy of the balance sheet provided.

## Findings, Recommendations, and Management Response

### 1. Vault Policies Procedures

CIB maintained two vaults on the premises and the Internal Audit Office (IAO) audited both vaults. While the vault used by OCN used appropriate controls. The vault used by CIU did not have an internal log, and several transactions were recorded in the *“Confidential Funds Expenditure Form”* as a lump-sum amount rather than the individual amounts. This caused inaccurate reconciliations and decreased the accountability to track transactions to specific operations.

The Police Department had vault policies and procedures included in their Standard Operating Procedures (SOP); however, they were lacking specific requirements such as logs to the vault that recorded transaction dates and proper documentation of the distribution of the money to individual supervisors. To ensure internal verification and reconciliation, the logs should be completed and maintained when money is issued. The lack of proper and complete vault policies and procedures, contributed to incomplete reconciliations being performed and decreased accountability.

**Recommendation:** IAO recommends the Police Department revise the vault SOP to reflect internal controls as stated in County policies ATB 020 Reconciliation of Financial Transactions and FPS 470 Processing Monetary Receipts. The procedures should be approved by FCPD senior management and Financial Resources Division (FRD) to ensure the integrity of the processes. All divisions should use the standard process to ensure uniformity within the department. Also, FCPD should adequately document their reconciliation including proper supporting documentation as stated in the policy. Reconciliations should be initialed and dated by the preparer and reviewer to document timely completion.

**Management Response:** When this issue was discovered, policies were immediately reviewed, amended and reinforced with the new command to ensure compliance with processes, including internal controls and appropriate documentation logs. Vault policies for both CID and OCN have been reviewed to ensure appropriate policies and controls are in place for both divisions. These policies have been incorporated into a SOP that has been reviewed (mandatory) by all incoming supervisors and commanders in order to provide appropriate guidance and ensure compliance with all financial controls.

In addition, the FCPD FRD Director conducted mandatory training for all incoming supervisors and commanders to ensure that they possess a thorough understanding of all financial responsibilities and has documented these training sessions. The SOP has been preliminarily reviewed and approved by senior management. Management has completed this item.

## **2. Lack of Proper Controls Over Bank Account**

IAO observed that the undercover fund was using several bank accounts to support the undercover operations. Written procedures governing these bank accounts did not include adequate accountability. Some checks used in operations had incomplete supporting documentation and/or written authorizations. This led to improper and incomplete reconciliations.

**Recommendation:** We recommend that internal controls be strengthened for the bank accounts. Policies and procedures should be improved to include who is authorized to set up a bank account, all transactions should have proper supporting documentation for bank transactions and authorizations. In addition, performance of monthly reconciliations should be reviewed by the commander and transactions over the established thresholds should be authorized by the commander for that operation.

**Management Response:** The FCPD, including their FRD group, are working with the Fairfax County Department of Finance to review processes and procedures which will be put in place upon completion of this review and will address authorization to open new accounts, including identifying extra controls as required. Interim bank account policies have been completed by DOF and implemented by FRD if the need arises to open a new account before the official policy is finalized.

The policies for issuing checks have been updated to require appropriate and

standardized back-up documentation for all checks, to include the approval to purchase, along with all associated receipts. Monthly reconciliations are being performed per the updated policy and will include reviews by the Division commander, Bureau Commander and the Director of Financial Resources. Management estimates finalizing the policy by July 2017.

### **3. Lack of Documentation for Credit Card Transactions**

We reviewed a random sample of credit card transactions and several of those transactions did not contain appropriate supporting documentation or document the purpose for the purchases. Only transactions over a certain threshold were required to have supporting documentation. Our audit sample consisted of a variety of purchases such as food, electronics, and hotel room charges. Subsequently, we were able to obtain verbal authorization for all transactions with the missing receipts. Lack of a documented business purpose or adequate supporting documentation for transactions increases the risk of inappropriate charges to the credit card.

**Recommendation:** We recommend the FCPD document transactions, maintain approval records, and identify the business purpose for all credit card purchases to ensure transparency. The Police Department should also obtain the receipts for all credit card expenditures using the undercover funds or any funds allocated to the Department regardless of the threshold. This action should be implemented immediately in all undercover divisions. IAO also recommends having written procedures that reflect all steps necessary. Procedures should be implemented to ensure that transactions are properly processed in a timely manner. Finally, an authorization approval matrix should be set-up to define transaction thresholds that require pre-approval from a commander.

**Management Response:** The existing SOP has been updated to reflect a consistent collection of receipts and approvals to be logged and filed, in order to quickly show appropriate back-up documents for all transactions, regardless of payment method.

Monthly reconciliations are now required per the updated policy and will include reviews by the Division Commander, Bureau Commander and the Director of Financial Resources. Management has completed this item.

### **4. Lack of Financial Personnel in Operations**

FCPD did not have personnel with adequate financial/accounting training to maintain and monitor high value monetary transactions for undercover operations. Monetary transaction processing was primarily performed by undercover officers with no oversight by FCPD, FRD. Processing financial transactions without adequate accounting skills or training, increases the risk of mistakes or errors. This was a contributing factor in control activities mentioned in this report that were not being performed.

**Recommendation:** We recommend the FCPD create a new civilian position with financial expertise that reports directly to FRD and works onsite at the CIB undercover

location. This position will ensure all funds allocated to the department are monitored, documented, and following the Department of Finance policies and procedures. This will increase the accountability for the performance of proper internal controls and compliance to financial policies and procedures. Due to the size and dollar value of the operations, this position should be created and actions implemented as soon as possible.

**Management Response:** The FRD, CIB and HR Teams will work in conjunction with the Department of Human Resources, through Workforce Planning to address these financial support issues long term. This will create a new position and a stronger framework for full-time financial support and accountability.

A new position has been requested in the FY2018 Budget submission in order to accommodate this item. However, in the interim, FRD's Director is assuming all duties of this position. Management anticipates completing this item by July 1, 2017.